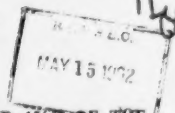
0 21919

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549



Q-35/20

FORM 10-Q

(Mark One)

X QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

HQ-2237

For the period ended MARCH 31, 1992

OR

— TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-15198

OVONIC SYNTHETIC MATERIALS COMPANY, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	38-2640630
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1788 NORTHWOOD, TROY, MICHIGAN 48084

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (313) 362-1290

Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports, and (2) has been subject to such filing requirements for the past 90 days. Yes X. No____.

As of April 30, 1992 there were 586,714 shares of Cumulative Preferred Stock and 1,400,000 shares of Common Stock outstanding.

PROCESSED BY

MAY 18 1992

BEST COPY AVAILABLE

Microfilmed by
Q-Data Corp. - St. Petersburg, FL

OVONIC SYNTHETIC MATERIALS COMPANY, INC.
(a development stage company)
STATEMENT OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,		Nine Months Ended March 31,		Cumulative January 1, 1980 to March 31, 1992
	1992	1991	1992	1991	
REVENUES					
Product sales	$266,444	$560,036	$1,103,317	$1,321,976	$8,792,465
Revenues from business agreements	57,001	126,170	305,098	581,725	9,094,339
Interest and other	41,871	90,226	92,396	157,642	1,538,077
TOTAL REVENUES	364,871	776,432	1,500,811	2,061,343	19,424,436
EXPENSES					
Cost of product sales	112,829	186,353	361,897	379,450	3,557,102
Cost of revenues from business agreements	66,221	135,934	309,160	561,289	7,247,384
Development and research	181,821	51,717	482,225	139,692	10,144,072
Patent (net)	27,764	71,333	62,532	83,600	1,439,727
General & administrative	195,778	218,165	560,629	625,742	12,049,431
Interest	-	-	-	-	78,601
TOTAL EXPENSES	584,353	663,502	1,776,383	1,789,773	34,516,257
NET INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EXTRAORDINARY ITEMS	(219,482)	112,930	(275,572)	271,570	(15,091,821)
INCOME TAXES					(122,000)
NET INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EXTRAORDINARY ITEMS	(219,482)	112,930	(275,572)	271,570	(15,213,821)
EXTRAORDINARY ITEM - TAX BENEFITS FROM UTILIZATION OF TAX LOSS CARRY FORWARD					122,000
NET INCOME (LOSS) FROM CONTINUING OPERATIONS	(219,482)	112,930	(275,572)	271,570	(15,091,821)
NET (LOSS) FROM DISCONTINUED OPERATIONS					(9,537,715)
LOSS ON DISPOSAL					(252,844)
NET INCOME (LOSS)	$(219,482)	$112,930	$(275,572)	$271,570	(24,882,380)
Less - Losses incurred prior to November 8, 1985					13,950,839
Losses subsequent to November 8, 1985					$(10,931,541)

See notes to financial statements.

OVONIC SYNTHETIC MATERIALS COMPANY, INC.
(a development stage company)

BALANCE SHEETS

ASSETS

	March 31, 1992 (Unaudited)	June 30, 1991 (Audited)
CURRENT ASSETS		
Cash	$ 3,398	$ 165,167
Short-term interest-bearing investments (at cost which approximates market)	1,300,000	1,000,000
Accounts receivable (net of allowance for uncollectible accounts of approximately $4,000 and amounts due from related parties)	337,800	581,164
Inventories	271,237	274,707
Prepaid expenses and other current assets	8,750	6,200
TOTAL CURRENT ASSETS	1,921,185	2,027,238
PROPERTY AND EQUIPMENT		
Leasehold improvements	283,420	283,420
Machinery and other equipment	3,472,477	3,437,536
	3,755,897	3,720,956
Less accumulated depreciation and amortization	(3,448,334)	(3,221,372)
TOTAL PROPERTY AND EQUIPMENT	307,563	499,584
TOTAL ASSETS	$2,228,748	$ 2,526,822

See notes to financial statements.

OVONIC SYNTHETIC MATERIALS COMPANY, INC.
(a development stage company)
BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 1992 (Unaudited)	June 30, 1991 (Audited)
CURRENT LIABILITIES		
Accounts payable and accrued expenses	$122,323	$197,635
Salaries, wages and amounts withheld from employees	38,940	43,501
Amounts owed to Energy Conversion Devices, Inc.	13,250	-
Deferred Revenue	44,121	-
TOTAL CURRENT LIABILITIES	218,634	241,136
STOCKHOLDERS' EQUITY		
Exchangeable Cumulative Preferred Stock, par value $27.00 per share: Authorized 781,859 shares, and outstanding 586,714 shares at March 31, 1992 and 661,048 shares at June 30, 1991, (liquidation preference and redemption price of $27.00 per share) (Note B)	15,841,278	17,848,296
Common Stock, par value $.01 per share: Authorized - 4,000,000 shares Issued and outstanding - 1,400,000 shares	14,000	14,000
Additional Paid-in capital	8,196,570	6,189,552
Deficit accumulated during the development stage	(22,041,734)	(21,766,162)
TOTAL STOCKHOLDER'S EQUITY	2,010,114	2,285,686
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$2,228,748	$2,526,822

See notes to financial statements.

OVONIC SYNTHETIC MATERIALS COMPANY, INC.
(a development stage company)
STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended March 31,		Cumulative January 1, 1980 to March 31, 1992
	1992	1991	
OPERATING ACTIVITIES			
Net income (loss) from continuing operations	$(275,571)	$271,570	$ (15,091,821)
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Depreciation	226,962	299,277	4,505,289
Loss on sale of equipment			31,178
Gain on sale of equipment			(19,365)
Changes in working capital other than debt			
Accounts receivable	243,364	(315,801)	(35,960)
Inventory	3,470	70,622	(271,237)
Other assets	(2,550)	(2,450)	(8,750)
Accounts payable	(75,312)	(645)	122,323
Salaries, wages and amounts withheld from employees	(4,561)	(4,708)	39,940
Deferred revenue	64,121	74,769	64,121
Amounts payable to parent - ECD	13,250	(34,660)	13,250
NET CASH PROVIDED BY (USED IN) CONTINUING OPERATIONS	173,172	359,965	(10,667,872)
DISCONTINUED OPERATIONS			
Net loss from discontinued operations			(9,537,715)
Add expenses not using working capital			
Depreciation			883,838
Loss on disposal			(252,644)
Gain on sale of equipment			(201,077)
NET CASH PROVIDED BY (USED IN) OPERATIONS	170,878	359,965	(19,820,164)
INVESTING ACTIVITIES:			
Purchases of capital equipment	(34,941)	(19,458)	(6,639,957)
Proceeds from sale of capital equipment			868,751
NET CASH USED IN INVESTING ACTIVITIES	(34,941)	(19,458)	(5,771,206)
FINANCING ACTIVITIES:			
Principal payments under capital lease obligations			(376,080)
Proceeds from issuance of long-term debt			16,892,494
Investment by ECD			21,110,193
Net proceeds from sale of Preferred Stock			(11,110,193)
Distribution to ECD			(10,000,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES			26,892,494
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	138,231	340,507	1,300,324
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,165,167	598,753	
CASH AND EQUIVALENTS AT END OF PERIOD	$1,303,398	$939,260	$1,303,398

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash equivalents:
Cash equivalents consists of investments in short-term, highly-liquid securities having a maturity of three months or less from date of acquisition made as a part of OSMC's cash management activity.

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS - MARCH 31, 1992

NOTE A - Basis of Presentation

Information for the three and nine months ended March 31, 1992 and 1991 is unaudited but includes all adjustments which Ovonic Synthetic Materials Company, Inc. ("OSMC") considers necessary for a fair presentation of financial condition, cash flows and results of operations.

In accordance with the instructions for the completion of the Quarterly Report on Form 10-Q, certain information and footnotes necessary to comply with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with OSMC's 1991 Annual Report on Form 10-K which contains a summary of OSMC's accounting principles and other footnote information.

Revenue Recognition

Revenues from business agreements which are on a cost-plus basis are recognized in accordance with the terms of the agreement. Revenues from business agreements, where there are no specific performance terms, are recognized in amounts equal to the expenses incurred on the programs plus any capital equipment purchased under these programs whereby OSMC retains title to the equipment which is depreciated in accordance with OSMC's depreciation policy. In addition, OSMC has had other agreements accounted for on a percentage of completion basis; if there are losses, OSMC records losses at the time such losses become apparent. All costs incurred by OSMC in connection with its performance under these agreements, including direct product development and research, patents, operating, general and administrative and depreciation, are recorded in OSMC's financial statements as cost of revenues from business agreements.

In addition to the revenues from business agreements, which are recognized in accordance with the above policies, there are revenues from product sales which are recognized upon shipment of the product. Included in other revenues are: the gain on sale of certain capitalized equipment; interest, which is recognized on an accrual basis as the interest income is earned; and revenue from certain deposition and specialty coatings services performed for outside parties that qualify neither as contract revenue nor product sales.

NOTE B - Preferred Stock Dividend

Holders of OSMC Preferred Stock, in preference to the holders of Common Stock, are entitled to receive from the surplus or net profits of OSMC annual cumulative dividends, payable quarterly without further declaration by the Board of Directors of OSMC commencing on February 15, 1992 at an annual rate of $3.24 per share. As of April 30, 1992, there were 586,714 shares of OSMC Preferred Stock outstanding. Such dividends are

cumulative to the extent unpaid. If on any dividend date, the surplus or net profits of OSMC are not sufficient to enable payment of the full accrued dividends, there is required to be paid on that date a proportionate amount of such accrued dividends to the full extent of funds legally available for that purpose without further declaration by the Board of Directors.

As of March 31, 1992 and currently, OSMC is not permitted to pay any dividends on the Preferred Stock under applicable provisions of Delaware Corporate Law, which defines surplus as accumulated deficit and additional paid-in capital. OSMC may pay dividends only from surplus on the prior and current years' net earnings, but in the case of net earnings only to the extent OSMC's net assets exceed the aggregate par value of the Preferred Stock. As of March 31, 1992, OSMC's net assets were approximately $2,000,000 compared to approximately $15,800,000 of Preferred Stock value. As of May 15, 1992, OSMC will cumulate the $951,000 of dividends payable on the Preferred Stock on that date until such dividend date as OSMC may pay a dividend under Delaware law. Because of the requirements of Delaware law, OSMC does not anticipate that it will be able to pay any dividends on the OSMC Preferred Stock in the foreseeable future. In accordance with generally accepted accounting principles, OSMC will not accrue any liability on its balance sheet for cumulated dividends until such time as it determines that payment thereof is probable.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources

As of March 31, 1992, OSMC had working capital of approximately $1,703,000 including cash and short-term investments of approximately $1,303,000.

OSMC's contract with Inland Steel Industries ("Inland Steel") to fund OSMC's magnet program was completed in September 1991. OSMC does not anticipate receiving any funding for the upcoming year from Inland Steel. OSMC is pursuing other financing arrangements to continue its magnet program.

During the past nine months, OSMC had average gross monthly cash requirements for operations of approximately $175,000 and generated positive cash flow of approximately $15,000 per month. OSMC anticipates average gross monthly cash requirements for operations of approximately $160,000 and negative cash flow of approximately $15,000 per month. In addition, during the next twelve months OSMC plans to spend approximately $100,000 on modifying certain equipment. OSMC's management contemplates that (a) currently available cash and short-term interest bearing investments, (b) projected product sales and development contracts and (c) funds available from existing contracts will enable OSMC to have cash sufficient to continue its operations. OSMC has reduced its number of employees from 23 at June 30, 1991 to 17 employees currently.

While during the nine months ended March 31, 1992, X-ray optic products sales were $1,103,000 OSMC's product sales have not yet attained a sales volume sufficient to generate positive cash flow from operations. Consequently, OSMC will need to consummate ongoing business arrangements currently being discussed or negotiated until its product sales are sufficient to generate positive cash from operations.

OSMC is currently discussing a variety of other business agreements and believes that it will be able to obtain the necessary financing from these activities. No assurance can be given, however, that OSMC can successfully conclude additional arrangements.

ECD has provided, and is continuing to provide, certain operational, research and management support to OSMC. The lack of such support could have a material effect on OSMC's business.

Results of Operations

Three Months Ended March 31, 1992 Compared to Three Months Ended March 31, 1991

The change from the net income from continuing operations for the three months ended March 31, 1991 compared to the net loss for three months ended March 31, 1992, $112,930 and $(219,482) respectively, was due to decreases in revenues from product sales and business agreements, partially offset by reductions in operating expenses in 1992.

The decrease in product sales from $560,036 in the three months ended March 31, 1991 to $266,444 in the three months ended March 31, 1992 was due to a decrease in the number of units of X-ray dispersive mirrors sold in 1992.

The decrease in revenues from business agreements from $126,170 in the three months ended March 31, 1991 to $57,001 in the three months ended March 31, 1992 was primarily due to the completion of the Inland program in September 1991, partially offset by new short-term agreements.

The decrease in other revenues from $90,226 in the three months ended March 31, 1991 to $41,426 in the three months ended March 31, 1992 was due to decreases in billings for various services performed for third parties.

The decrease in cost of product sales from $'86,353 in the three months ended March 31, 1991 to $112,829 in the three months ended March 31, 1992 was the result of decreased product sales in 1992.

The decrease in cost of revenue from business agreements from $135,934 for the three months ended March 31, 1991 to $66,221 for the three months ended March 31, 1992 was primarily due to the completion of the Inland program in September 1991.

The increase in direct product development and research expense from $51,717 in the three months ended March 31, 1991 to $181,821 in the three months ended March 31, 1992 was due principally to the completion of the Inland program in September, 1991 and the continuation of this research after that date.

The decrease in operating, general and administrative expenses from $218,165 in the three months ended March 31, 1991 to $195,778 in the three months ended March 31, 1992 was due to decreases in depreciation and operating activities, partially offset by increases in administrative fees payable to ECD.

OSMC contracts with ECD for the provision of certain services relating to materials research and analysis and administrative activities. ECD currently provides these services in amount and at prices mutually agreed upon by ECD and OSMC.

Nine Months Ended March 31, 1992 Compared to Nine Months Ended March 31, 1991

The change from the net income from continuing operations for the nine months ended March 31, 1991 compared to the net loss for nine months ended March 31, 1992 of $271,570 and $(275,572) respectively, was due to decreases in revenues from product sales and business agreements, partially offset by reductions in operating expenses.

The decrease in product sales from $1,321,976 in the nine months ended March 31, 1991 to $1,103,317 in the nine months ended March 31, 1992 was due to a decrease in the number of units of X-ray dispersive mirrors sold in 1992.

The decrease in revenues from business agreements from $581,725 in the nine months ended March 31, 1991 to $305,098 in the nine months ended March 31, 1992 was primarily due to the completion of the Inland program in September 1991, partially offset by new short-term agreements.

The decrease in other revenues from $157,642 in the nine months ended March 31, 1991 to $92,396 in the nine months ended March 31, 1992 was due to decreases in billings for various services performed for third parties.

The decrease in cost of product sales from $379,450 in the nine months ended March 31, 1991 to $361,897 in the nine months ended March 31, 1992 was the result of decreased product sales, partially offset by increased manufacturing costs in 1992.

The decrease in cost of revenue from business agreements from $561,289 for the nine months ended March 31, 1991 to $309,160 for the nine months ended March 31, 1992 was primarily due to the completion of the Inland program in September, 1991.

The increase in direct product development and research expense from $139,692 in the nine months ended March 31, 1991 to $482,225 in the nine months ended March 31, 1992

was due principally to the completion of the Inland program in September 1991 and the continuation of the research after that date.

The decrease in operating, general and administrative expenses from $625,742 in the nine months ended March 31, 1991 to $560,629 in the nine months ended March 31, 1992 was due to decreases in depreciation and operating activities, partially offset by increases in administrative fees payable to ECD.

OSMC contracts with ECD for the provision of certain services relating to materials research and analysis and administrative activities. ECD currently provides these services in amount and at prices mutually agreed upon by ECD and OSMC.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Holders of OSMC Preferred Stock were entitled to exchange such shares for shares of common stock of ECD ("ECD Common Stock") on a one-for-one basis through November 15, 1991 which was extended by the U.S. District Court for the Western District of New York in Rochester ("the Court") through January 3, 1992. Currently, there are 586,714 shares of OSMC Preferred Stock outstanding. On May 1, 1992, Manning & Napier Advisors, Inc. ("Manning & Napier"), filed a motion with the Court seeking a reinstatement and extension of the right to exchange the OSMC Preferred Stock into ECD Common Stock until certain events related to the Consent Decree among William Manning, Manning & Napier and ECD and Stanford R. Ovshinsky have occurred. This motion is scheduled to be heard by the Court on June 3, 1992. ECD's management has not yet filed a response.

Item 6. Exhibits and Reports on Form 8-K

A. EXHIBITS

None.

B. REPORTS ON FORM 8-K

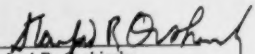
None.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Ovonic Synthetic Materials Company, Inc.
(Registrant)

Date: May 15, 1992

By: 
Stanford R. Ovshinsky
Chief Executive Officer